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March 8, 2002

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Federal Communication Commission
Bureau/Office

EX PARTE OR LATE FILED

William F. Caton, Acting Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: Ex Parte Meeting in CC Docket Nos. 00-256, 96-45, and 98-77

Dear Mr. Caton:

On February 28, 2002, Diane Smith and David Bartlett of ALLTEL Corporation, Robert J. Debroux of TDS Telecom, Michael T. Skrivan of Madison River Communications, Jeffrey S. Glover, John F. Jones, and Nolan Moulle, Jr. of CenturyTel, Inc., and Karen Brinkmann and Richard R. Cameron of Latham & Watkins, their counsel, met with Jane Jackson, Jack Zinman, Jay Atkinson, and Doug Slotten, all of the Common Carrier Bureau regarding the above-referenced proceedings.

In the meeting, the carriers reiterated the position taken in their Joint Comments in this proceeding, and made the additional points outlined in the attached summary.

As required by Commission rules, I am filing two copies of this letter. Please contact me if you have any questions at (202) 637-2225.

Very truly yours,

Richard Cameron

Richard R. Cameron
of LATHAM & WATKINS

cc (w/attachment): Jane E. Jackson
Jack Zinman
Jay Atkinson
Doug Slotten

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Alternative Regulation for Rate-of-Return Carriers

A Presentation by ALLTEL, CenturyTel, TDS Telecom, and Madison River Communications

I. Current Interstate Price Cap Regulation is not appropriate for today's rate-of-return carriers.

A. Rate-of-return carriers are a fraction of the size of the mandatory price cap carriers. Even the largest, ALLTEL, is only about 1/8 the size of the smallest BOC, Qwest, and with less than 1/8 the total interstate regulated revenues.

Carrier	Lines (Source: *Trends in Telephone Service*, FCC Common Carrier Bureau, August, 2001, Table 8.3.)	Interstate Regulated Revenues (Source: Katie Rangos, Industry Analysis Division, Price Cap Carrier Interstate Rate of Return Summary, May 3, 2001 (BOCs) and company data (others))
Verizon	62,276,224	\$10.1 billion
SBC	58,918,970	\$8.38 billion
BellSouth	24,780,115	\$4.02 billion
Qwest	16,883,755	\$2.97 billion
ALLTEL	2,271,645	\$350 million
CenturyTel	1,264,311	\$270 million
TDS	588,355	\$170 million
Madison River	148,614	\$150 million

B. The differences between rural and non-rural carriers can serve as a proxy for the differences between rate-of-return and price cap carriers. These differences are dramatic, and the rural carrier data include many BOCs!

Rural Carriers

- 19 lines per square mile
- 13 persons per square mile
- 81 percent residential lines
- 8 lines per sheath mile
- 1254 customers per switch
- >\$5000 total plant investment per loop
- 21 percent of minutes interstate

Non-Rural Carriers

- 128 lines per square mile
- 105 persons per square mile
- 73 percent residential lines
- 30 lines per sheath mile
- 7000+ customers per switch
- <\$3000 total plant investment per loop
- 16 percent of minutes interstate

(Source: Rural Task Force, White Paper #2: *The Rural Difference* (Jan. 2000).

C. No system of regulation should be imposed on an all-or-nothing basis or on a mandatory basis on rate-of-return holding companies.

1. Even within these companies, there is great diversity and little uniformity among individual LECs.
2. For example, there is no correlation between line count and unseparated revenue requirement per loop. Even within ALLTEL, CenturyTel, TDS, and Madison River, individual LECs range in size from approximately 325,000 lines to well under 100 lines. Unseparated revenue requirements per loop for these companies range from approximately $100 to over $1800 per year and do not depend on the size of the LEC.

D. Current interstate price cap regulation has not encouraged investment in high-cost areas served by the mandatory price cap carriers. Dissatisfaction with the BOCs' service quality has been increasing steadily since approximately 1997.

1. On a composite basis, complaints per million lines for the BOCs have climbed steadily since 1997 from approximately 150 to approximately 240 in 2000.
2. Since 1997, on a composite basis, the percent of residential customers dissatisfied with their service installation has doubled, from approximately 5 percent to approximately 10 percent.
3. Similarly, since 1997, on a composite basis, the percent of residential customers dissatisfied with service repair performance has increased from approximately 10 percent to approximately 15 percent.

II. The Telecommunications Market is Changing Rapidly in Rural America.

A. Line growth has stalled.

1. After historical growth of between 4 and 5 percent each year, CenturyTel saw line growth turn flat in 2001.
2. After historical growth of around 6 percent per year, Madison River saw line growth in 2001 of only 1-2 percent.

B. Minute growth has stalled or turned negative.

1. For CenturyTel, access minute growth turned negative in 2001.

2. For Madison River, access minute growth dropped from approximately 7-10 percent per year historically to around 2 percent per year in 2001.
3. Industry-wide, minute growth has been declining since early 1999 and hit zero, as compared to the same quarter of the prior year, in the fourth quarter of 2000.

C. Intermodal competition, particularly from CMRS carriers, is increasing. The minute growth pattern shows steeper declines in originating minutes, suggesting that originating minutes are shifting to CMRS carriers.

D. Risk in the telecom sector is increasing.

1. Technology is evolving rapidly in unpredictable ways.
2. The future of the network is uncertain.
3. The economy is sluggish.
4. Initial take rates for DSL are low.
5. The risk of stranded investment is high.
6. A five-year timeframe would give carriers the certainty needed for investment planning purposes.

III. The Goals of Incentive Regulation

A. Provide Benefits to our Consumers, IXCs, ISPs, and CLECs

B. Balance the Risks of Investment to Expand Rural Network Capabilities with Commensurate Benefits

C. Permit Competitive Pricing of Services

D. Increase Regulatory Certainty

IV. A Possible Framework for Alternative Regulation – Concepts Discussed

A. Global Elements

1. Eliminate the price cap all-or-nothing rule immediately
2. Optional by study area
3. Transitional over five years
4. One-way door in effect until the end of the five-year period
5. Prospective low-end adjustment mechanism (akin to the price cap mechanism) if earnings drop below 10.25 percent.

B. Common Line Elements

1. Retain rules governing SLC caps, deaveraging, and phase-out of CCLC.
2. Break the link between Interstate Common Line Support ("ICLS") and high-cost universal service support, on one hand, and the LEC's common line costs on the other.
3. Consideration of incentives tied to performance based on compliance with service quality and advanced network capability goals.

C. Traffic Sensitive Elements

1. Create additional traffic sensitive rate stability by instituting a simplified price cap with no X-factor and no inflation adjustment.
2. Place special access in its own "basket."
3. Break the link between Local Switching Support and carrier costs when carrier elects to participate in alternative regulation.

D. Pricing Flexibility

1. Should include volume- and term-discounts, contract-based pricing, deaveraging and, ultimately, non-dominant treatment
2. Could be tied to voluntary market-opening steps, such as any one of the following:

   a. Filing a collocation tariff and execution of an interconnection agreement;

   b. Presence of a competitor with ETC status;

   c. Loss of 10 percent of lines or revenues to a competitor;

   d. Filing an interconnection SGAT; *or*

   e. Renouncing the rural exemption in 251(f)(1)

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